

ANNUAL GENERAL MEETING
INSURANCE COUNCIL OF SAINT LUCIA

ADDRESS

By

REGISTRAR OF INSURANCE – J CALIXTE LEON

President, members of Council, Guest Speaker – Ms. Jenny Daniels, ladies and gentlemen good afternoon.

Thanks for the invitation to address you once again at this your Annual General meeting. Save for the period 2003 to 2007 when I was no longer the Registrar and 2011 (I was unavailable then) I had chosen to discuss the myriad of legislative and administrative issues in the conduct of Insurance locally. Today I have chosen to depart from this approach slightly and instead, given the time allocated, will discuss some of the developments in the industry and the performance to date.

Developments and Issues

- New term of insurance Appeal Commissioners:-
 - Lisle Chase, Roderick Clarke, Chairman Botha McNamara and Secretary Adria Sonson
 - The Commission was reasonably active and considered two cases involving Brokers – insolvency / highly explosive payable/receivables condition and a denied

application for the conduct of brokerage business. The decision not to license the broker because of a failure to satisfy the requirements of Statute was upheld. In the case of the insolvency, the case was suspended at the request of the registrar as the Broker satisfied conditions set by the registrar for continued participation in the sector.

- Acquisition of ALICO by PALIC- EC:-
 - This was a fairly complex and difficult undertaking involving the transfer of the portfolio and the entrance of a new participant in the industry. We have been able to secure control of this operation by requiring incorporation of the company in Saint Lucia (a subsidiary has been established) with associated branch operations in the remaining OECS countries.
- BAICO:-
 - I am pleased to report the near consummation of the Sale and Purchase Agreement for the traditional portfolio of BAICO between SAGICOR and OECS governments. Every effort has been taken to ensure utilization of the insurance fund solely for the protection of the Saint Lucia policyholder. A proportional release of the Insurance Fund, in keeping with the liabilities of the traditional portfolio will be effected and the balance remaining pledged to the order of the registrar until a resolution of the EFPA liabilities has been secured. Efforts continue for finding a reasonable and acceptable resolution to that part of the portfolio.

- CLICO:-

Progress is not as clearly defined as in BAICO. The portfolio of CLICO international life was put up for sale for some time. There have been a few indications of interest. The latest proposal seeks to:

- Dispose of the traditional business (Individual and Group Life, Pensions and Annuities);
 - Two non-binding offers were received conditional upon the transfer of sufficient and admissible assets for purposes of the Insurance Fund
- Possible restructuring of the Executive Flexible Premium Annuities (EFPAs) into long term annuities (also to be backed by sufficient and admissible assets.

The proposal is silent on Accident and Health class of Insurance business.

- These discussions are ongoing and I am unable at this point to discuss the proposal. Suffice it to say however that the utmost care will be exercised in our effort to secure the insurance fund and other balance sheet assets of the Saint Lucia branch operations for the satisfaction of the Saint Lucia policyholder's interest. More than 70% of the Saint Lucia branch operations are in EFPAs. Therefore any solution that seeks to redress only the traditional portfolio will not be acceptable to us.

- Rebating/Unsecured Credit/Policy cancellations:-
 - These three issues have on various occasions been discussed with the industry and have caused discomfort and a fair amount of pain to some. I will reiterate, rebating is illegal and so too is unsecured credit. We continue to receive complains, as recent as last week, regarding the relationships between the broker, insurer and the client. We have been told that some insurers approach Brokers clients directly and make explicit offers of premium reductions / waivers for direct placement of the risk. While I intend to investigate some of these complaints I must remind you that this is unacceptable practice. Perhaps the more vexing issue is the matter of policy cancellations. I think I have said enough on this but just for a moment think of the consequences of this action once a cover note has been issued. These include:
 - the issue of a sticker indicating legitimacy of use of our road network;
 - third party risk coverage;
 - Reasonable expectation by the insured of claim settlement

I am aware of the advice to your membership on that issue, never mind I was not offered the courtesy of copy. One would have thought that rather than being adversarial, a more rational and reasonable approach would have been to engage the membership

in finding an acceptable solution to this very serious problem. I will say no more on this; a catastrophe appears to be in waiting.

- New Regulatory Roadmap:-
 - I wish to draw attention to the on-going discussion regarding an appropriate and efficient regulatory mechanism in the aftermath of the CLICO / BAICO debacle. This process started formally in St. Kitts October 18 – 19, 2011 with participation of ECCU regulators, ECCU Financial Secretaries, The ECCB, representatives of the ECCU industry and representatives of the CDB and the IBRD. These discussions were followed up in Grenada on February 23rd last, again with similar representation. . It might interest you to note some of the options being explored:
 - Feasibility of a central regulator;
 - Introduction of a regulated passport system of licensing;
 - Incorporation in one ECCU jurisdiction satisfying corporate requirements for all other jurisdictions.
 - New Uniform Legislation ?

While Council was represented at the first encounter, there was no representation in Grenada. I urge you to seize these opportunities but importantly to express your ideas and vision and help shape the new direction insurance regulation is about to follow.

Mr. President, as you are aware, the industry comprises:

26 insurance companies and one association of underwriters.

11 insurance agents: two were newly licensed in 2011

13 brokers; the majority of whom are registered to negotiate all six classes of general insurance business and ordinary long term insurance, and

168 licensed Salesmen.

Permit me to comment briefly on the performance of Brokers. So far the license of one broker was cancelled (Express Insurance Brokers) and another was suspended (I & C); there was also a voluntary exit: two are at risk of having their license suspended or terminated. We also refused one application.

Brokers continue to have large payables on their books, the majority of which is beyond 30 days. Market ethical conduct remains a major issue as it is reported that some are commingling client's premiums with company funds, resulting in significant growth in payables to insurers. And totally unacceptable, continue to submit their audited accounts beyond the six (6) months stipulated by statute.

Gross Premium peaked for the group at \$97 million in 2009. Gross premiums however declined in 2011 at approx. 84 million. Property and motor business continue to be the principal revenue source for brokers.

There is need for some reflection on the involvement / participation of this segment. Brokers earn roughly 10%

commission. This is the primary income source. Must meet all operating expenses of the entity. Therefore success will be highly dependent on volume and I submit their Business model needs urgent review.

- Financial Soundness
 - Balance Sheet operations
 - Insert File – Ratios and Solvency of Insurers